

<p align="center"><b>STATE OF MONTANA</b></p> <p align="center"><b>COMPLIANCE SUPPLEMENT FOR AUDITS OF</b></p> <p align="center"><b>LOCAL GOVERNMENT ENTITIES</b></p>	REF: COM-5
	PAGE: 1 of 14
<b>PROGRAM/SUBJECT: Community Development Block Grant – State’s Program (CDBG) (CFDA No. 14.228)</b>	

**FEDERAL GRANTOR:** U.S. Department of Housing and Urban Development (HUD)

**TYPES OF RECIPIENTS:** Counties, cities, towns

**SOURCE OF AUTHORIZATION AND REGULATIONS:**

Housing and Community Development Act of 1974, Title I, as amended, Public Law 93-383, 88 Stat. 633, 42 U.S.C. 5301; CFR, Title 24, Part 570, Subpart I; Section 90-1-103(5), MCA; A.R.M. 8.94.3703 - 9.94.3711

Guidelines provided by the Montana Department of Commerce:

1. CDBG Grant Administration Manual\*
2. CDBG Application Guidelines\*
3. CDBG Program Income/Revolving Loan Fund Manual

(\*NOTE: Adopted as administrative rules by reference.)

**INFORMATION CONTACT:**

Montana Department of Commerce:  
Housing and Neighborhood Renewal, Public Facilities and Planning grants:

Community Development Division

Name: Gus Byrom

Phone Number: (406) 841-2777

Economic Development Grants, Loans and Planning grants:

Business Resources Division

Name: Karyl Tobel

Phone Number: (406) 841-2733

**I. PROGRAM OBJECTIVES:**

The primary objective of this program is the development of viable urban communities by providing decent housing and a suitable living environment and expanded economic opportunities, principally for persons of low and moderate- income. This is to be achieved in two ways. First, funds can only be used to assist eligible activities that fulfill one or more of the following three national objectives: (1) benefiting low and moderate income persons; (2) aid in the prevention or elimination of slums or blight; and (3) meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and other financial resources are not available to meet such needs.

EFFECTIVE DATE: 7/1/1999 (unless otherwise noted)

REVISION DATE: 6/30/2006

<b>PROGRAM/SUBJECT:</b> <b>Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 2 of 14

**I. PROGRAM OBJECTIVES - continued:**

**(NOTE:** Since the State of Montana took over direct administration of the CDBG program from HUD in 1982, Montana has operated the program only under the first national objective of benefiting low and moderate income persons.)

Second, the grantee [in this case, the Montana Department of Commerce] must spend at least 70 percent of its funds over a period of up to 3 years specified by the grantee in its certification, for activities that address the national objective of benefiting low and moderate income persons. The Montana CDBG program has responded to this mandate by requiring that each local government use at least 51% of its non-administrative funds for activities that are clearly designed to meet the identified needs of low and moderate income persons.

**II. PROGRAM PROCEDURES:**

The Montana Department of Commerce (MDOC) receives CDBG funds from HUD in the form of a formula grant. Projects funded by the Montana CDBG program fall into one of four funding categories: (1) economic development; (2) housing and neighborhood renewal; (3) public facilities; and (4) planning.

Applications for **economic development funding** are submitted to the Loan Review Committee of the Business Resources Division of the MDOC after they have been determined to be complete, and after the projects have been reviewed and analyzed for feasibility. Funds are then awarded by the Loan Review Committee on a “first come, first served” basis. Most assistance for economic development projects is provided in the form of loans for equipment, fixtures, machinery, building materials, or working capital, or for employee training.

Funds for **housing and neighborhood renewal** and **public facilities** are awarded to local governments on an annual competitive basis by the Community Development Division of the MDOC. Applications received from local governments are evaluated and scored based on ranking criteria established by the MDOC. After grants are awarded, CDBG funds are distributed as costs are incurred locally.

Funds for **planning activities** are awarded to local governments on an annual competitive basis by both the Community Development Division and the Business Resources Division of the MDOC, in separate planning grant competitions. Under the Community Development Division, applications received from local governments are evaluated and scored based on ranking criteria established by the MDOC. The Business Resources Division has established criteria that applicants must respond to, but applications do not receive scores as with the Community Development Division. After grants are awarded, CDBG funds are distributed as costs are incurred locally.

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 3 of 14

## II.     PROGRAM PROCEDURES - continued:

See the two CDBG Planning Grant Application Guidelines –  
Community Development Division –  
[http://comdev.mt.gov/CDD\\_CDBG\\_PGAG.asp](http://comdev.mt.gov/CDD_CDBG_PGAG.asp)  
Business Resources Division -  
<http://businessresources.mt.gov/Includes/CDBG/PlanGrant/2006EPlanningGrantsGuidelines1.pdf>

Special purpose agencies, private businesses, and public or private nonprofit organizations are not eligible to apply for CDBG funding directly. However, these entities may be involved in implementing and administering a CDBG program via an interlocal agreement or services contract with the local government (i.e., in a subrecipient capacity). The local government must apply for CDBG funding on behalf of the special purpose agency, private business, or public or private nonprofit organization.

During the course of the project, the MDOC monitors each local government through periodic on-site visits and written progress reports. The MDOC may conduct one on-site visit for each CDBG project. (Not all projects will receive an onsite monitoring visit, depending upon the experience of the local government, local development organization, and level of complication of the funded project.) Documentation of these on-site visits is provided by the MDOC, in writing, to the local government. All such monitoring letters, as well as other written correspondence and telephone notes related to monitoring of the grant, should be maintained by the local government within its record keeping system.

**(NOTE:** We recommend that the auditor review the local government’s record keeping system to become familiar with areas of potential non-compliance. If the auditor intends to place reliance on the MDOC’s monitoring visits to reduce testing of some of the following compliance requirements, we recommend that copies of MDOC correspondence be placed in the auditor’s working paper file.)

## III.    COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

### 1.    Compliance Requirements:

- A listing of **general** activities which are eligible under the CDBG - State’s Program are included in the Federal Office of Management and Budget’s Compliance Supplement for Single Audits of State and Local Governments. Individual grant contracts contain **specific** details regarding allowable uses of funds. The grant contract includes the approved CDBG grant application, the amount of the grant, the scope of services, the project budget and implementation schedule, and any special conditions associated with the grant. (See CDBG Application Guidelines)

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 4 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 1. Compliance Requirements - continued:

- Costs incurred prior to the award of the grant (such as fees for preparing an application, community surveys, needs assessments, or preliminary engineering or architectural studies) are not eligible for reimbursement in the CDBG Housing or Public Facilities grants program or the Economic Development program. (See CDBG Application Guidelines) However, under CDBG’s Planning Grants program, community surveys, needs assessments, preliminary architectural or engineering studies and other community planning activities identified as eligible in CDBG’s Planning Grant Application Guidelines are eligible for CDBG funding.

#### Suggested Audit Procedures:

- Review the grant contract to determine the scope of services, detailed allowable costs, and special conditions, if any, applicable to the grant. Test expenditures to verify that all costs charged to the project are allowable. In particular, verify that salaries and wages of staff working only partially on CDBG activities are prorated on a reasonable basis.
- Review the **Letter of Award** from the MDOC to determine the date on which the grant was awarded to the local government. Review expenditure documentation and verify that any expenditures charged to the project were not incurred before that date. Also, verify that no ineligible costs were charged to the project.

#### 2. Compliance Requirement:

- Each local government receiving **housing and neighborhood renewal** or **public facilities grants** must use at least 51% of its non-administrative funds for activities that are clearly designed to meet the identified needs of low and moderate income persons. In addition, program activities may not benefit moderate income persons in a manner which would exclude or discriminate against low income persons. The local government is required to conduct a survey of household income or provide other similar documentation, such as HUD income data (derived from U.S. Census data). This documentation is to be submitted with the CDBG application. A copy of the documentation, including the CDBG application, should also be included in the entity’s files. (See CDBG Application Guidelines)

#### Suggested Audit Procedure:

- **Housing and neighborhood renewal or public facilities grants** - Review the program budget and scope of project to verify that at least 51% of non-administrative program funds will be used to benefit low and moderate income persons. (**NOTE:** The MDOC monitors this requirement during the application process. The grant budget and scope of project will reflect that the proper percentage of project funds will be used to benefit low and moderate income persons.)

<b>PROGRAM/SUBJECT:</b> <b>Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 5 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 3. Compliance Requirement:

- In the case of **economic development projects**, 51% of jobs retained or created must be available to, or filled by, low and moderate income persons. A Hiring and Training Plan, which includes the job creation/retention goals that must be met at the end of the contract period, is incorporated into the grant agreement between the local government and the MDOC. The plan is also attached to the loan agreement with the assisted business. Documentation of compliance with this requirement should be maintained on file by the local government, the assisted business, and any agencies assisting in hiring and training (such as the local Job Service or the Human Resource Development Council). (See CDBG Application Guidelines)

#### Suggested Audit Procedure:

- **Economic development projects** - Review the Hiring and Training Plan in the grant agreement and in the loan agreement with the assisted business. Verify that the local government is periodically monitoring the assisted business’ compliance with the Plan. Some local governments may use an “Employment Tracking & Direct Benefit Summary Data” form to monitor this compliance requirement. **(NOTE: The MDOC verifies the completeness and adequacy of the local government’s monitoring practices at the time of the MDOC’s monitoring visit(s). On-site monitoring visits are made at the option of the CDBG staff. In addition, MDOC requires the local government to submit quarterly reports to ensure that the local government is monitoring the assisted business’ progress. These quarterly reports reflect the local government’s tracking of applicants and actual hires, and of the assisted business’ financial statements (balance sheet and profit and loss statements). Also, auditors should be aware that the business plan and financial statements filed by the assisted business are proprietary, and are to be kept confidential by the local government.)**

#### 4. Compliance Requirements:

- **For housing and neighborhood renewal and public facilities projects**, administrative costs of an individual project are limited to 10% (for public facilities projects and for new housing construction projects) and 15% (for housing rehabilitation projects) of the total CDBG funds in the approved project budget. (See CDBG Application Guidelines)
- **For economic development projects**, administrative costs are limited to 8% of the total project cost. (See CDBG Application Guidelines). Allowable administrative costs are specified in the detailed budget attached to the grant contract, and may include such items as the cost to prepare the environmental review, the cost of the local project audit, and contractual costs for professional administrative services.

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 6 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### **Suggested Audit Procedure:**

- Verify that administrative costs charged to the grant are eligible per the grant contract, and that they do not exceed the authorized amounts. Review expenditures charged to the activity portion of the project budget to verify that they are not administrative in nature.

#### **5. Compliance Requirements:**

- There are no matching requirements that are applicable to **housing and neighborhood renewal projects** at the local government level, although a competitive application generally has a high amount (50%) of funding from other sources.
- For a **public facilities grant**, a local government must contribute local funds equal to at least 25% of the total CDBG dollars in the project budget. For example, if a community intends to request a total of \$400,000 in CDBG funds for administrative and public facilities costs, it would have to provide a \$100,000 matching contribution to the total project cost. This local match may be provided by a direct cash contribution or by incurring a loan or issuing bonds to be paid through user charges or property tax assessments. In cases of extreme financial hardship and where the public’s health or safety is affected, this 25% matching requirement may be waived. Ineligible matching funds: Land, materials or services that cannot accurately and fairly be assigned a uniform monetary value are ineligible as matching funds. Funds expended on a project before the announcement of tentative grant award by the Director of the Department of Commerce are ineligible as matching funds, except as noted in CDBG’s Public Facilities Application Guidelines (see pages 59ff for specifics details concerning what CDBG allows as match).
- For an **economic development grant**, a local government must assure a match from the assisted business of at least one non-CDBG dollar for each dollar of non-administrative CDBG funds. This match may come from a variety of sources, such as new investment by the assisted business, bank loans, state or federal loan programs, or grants, or other types of match as determined by the MDOC contract.
- For a **planning grant**, a local government must contribute local matching funds equal to the amount of CDBG funds awarded. In cases of extreme financial hardship this 50-50 matching requirement may be waived.

(See CDBG Planning Grant Application Guidelines).

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 7 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### Suggested Audit Procedures:

- Determine the type of local match which the local government will provide for a **public facilities grant**. Review financial records, the grant budget document, and selected **Requests for Funds Forms** to verify that the local match has been met. **(Note: The DOC monitors this requirement as part of its applicant ranking process, and through its periodic review of Requests for Funds Reports.)**
- For an **economic development project**, determine the type of local match which the local government will provide. Review financial records, the grant budget document, selected Requests for Funds payments, and/or progress reports to verify that the local match has been met.
- For a **planning grant**, verify that the local government match is supported by financial records, the grant budget document, selected Requests for Funds payments, and/or progress reports.

#### 6. Compliance Requirement:

- Local government draw-downs are initiated by preparation and submission of the **Request for Funds Form** and a **Progress Report**. The amount requested must be consistent with the approved contract budget and the project progress report which is required with each Request for Funds. (Grant Administration Manual)

#### Suggested Audit Procedure:

- Review selected **Requests for Funds Forms** and **Progress Reports**. Verify that the information on these reports agrees with the local government’s accounting records. Also, verify that the draw-downs requested are consistent with the project budget and implementation schedule. **(NOTE: The MDOC reviews and approves all Requests for Funds Forms submitted by the local government. In addition, the MDOC performs detailed examinations of selected Requests at the time of the on-site monitoring visit(s).)**

#### 7. Compliance Requirements:

- A local government may not expend or encumber CDBG funds until an **Environmental Review Record** has been completed by the local government and the State has issued a formal **Release of Funds**. An exception to this is that the MDOC may authorize a local government to incur costs for some activities which have been designated as “environmentally exempt.” “Environmentally exempt” activities include administrative costs, project engineering and design, and environmental review activities which are unlikely to cause any environmental impact. The MDOC will issue a specific authorization to allow each local government to begin incurring costs for these activities. (see CDBG Application Guidelines)

<b>PROGRAM/SUBJECT:</b> <b>Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 8 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 7. Compliance Requirements - continued:

- For **economic development** projects, the date that the Loan Review Committee makes the funding decision is the effective date of the contract and the date from which the local government can be reimbursed for **administrative** costs. Project **activity** costs incurred from the date of award may only be reimbursed after the date all contract startup conditions are satisfied by the local government and approved, in writing, by the MDOC.

#### Suggested Audit Procedure:

- Review documents from the MDOC which authorize the local government to incur specific “environmentally exempt” costs. Also, review the formal **Release of Funds** from the MDOC, and note the date on this document. Test expenditures to verify that the only CDBG funds expended or encumbered before this date were for authorized “environmentally exempt” activities.

#### 8. Compliance Requirement:

- The local government is required to adhere to record keeping requirements which the MDOC has established to facilitate the MDOC’s monitoring visits and audits of the local government. Original and complete documentation for all files should be retained for three years beyond final project closeout in the official offices of the local government, and should be available for audit purposes during normal business hours. (Grant Administration Manual) A listing of project records which the local government must retain can be found in Chapter 1 of the CDBG Grant Administration Manual, along with a suggested filing system.

#### Suggested Audit Procedure:

- During the course of the audit, verify that any project records needed by the auditor are readily available. **(NOTE: The MDOC verifies the completeness and adequacy of the local government’s record keeping system at the time of the MDOC’s monitoring visit(s).)**

#### 9. Compliance Requirement:

- Any budget amendments must receive prior approval from the MDOC. Minor amendments are noted on the **Requests for Funds Forms**, and should be mentioned in the **Progress Reports**. The CDBG program officer will indicate approval of these amendments by signing the documents. More significant amendments (i.e., over \$5,000) need approval from a CDBG program manager or the Director of the Department of Commerce. This approval will be documented in writing. (Grant Administration Manual)



<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 9 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### **Suggested Audit Procedure:**

- Determine if the budget for the program per the entity records is in agreement with the budget as originally approved in the grant contract. If not, verify that the local government has received written approval from the MDOC for the budget amendment, as outlined above.

#### **10. Compliance Requirement:**

- The local government is required to establish and maintain a non-interest bearing depository account in a local financial institution, to be used exclusively for the receipt and disbursement of CDBG funds. If, however, interest is earned, it must be returned to the MDOC. (Grant Administration Manual) (**Note:** There is a \$100 exemption to this requirement.)

#### **Suggested Audit Procedures:**

- Determine that the local government has established a separate non-interest bearing depository account in a local financial institution which is used exclusively for the receipt and disbursement of CDBG funds.
- Review activity of the depository account during the audit period. If more than \$100 of interest has been earned, verify that the interest income was returned to the MDOC.

#### **11. Compliance Requirement:**

- No more than \$5,000 may be retained in a local government federal depository account for a period longer than three business days. (Grant Administration Manual)

#### **Suggested Audit Procedure:**

- Review cash balances during the audit period. Verify that the \$5,000/3 day requirement has been met. (**NOTE:** Some local governments may use a “Cash Control Register” document to monitor these compliance requirements.)

#### **12. Compliance Requirement:**

- **Economic Development Projects (Loans):** The local government is responsible for monitoring the assisted entity periodically during the term of the project. Key areas to be monitored are: (1) comparison of assisted entity’s progress with the contract implementation schedule; (2) inspection of large pieces of machinery and equipment; (3) inspection of the general condition of the facility, including inventory; (4) comparison of the number of employees present with the hiring and training plan progress report; and (5) following the monitoring procedures for labor standards, if applicable. (Grant Administration Manual)

<b>PROGRAM/SUBJECT:</b> <b>Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 10 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### **Suggested Audit Procedure:**

- Verify that the local government has monitored the assisted entity periodically during the term of the economic development project. In some cases, on-site monitoring visits may be formally documented. However, in many cases, monitoring may consist of phone calls or impromptu visits by elected officials, and formal documentation of the monitoring may not be available. In this case, inquiry of local government officials and employees as to the type of monitoring provided may be the only audit procedure to be performed. **(NOTE: As part of its on-site monitoring, the MDOC may review the system which the local government has in place to ensure compliance with the agreement between the local government and the assisted entity. The MDOC may also review documentation of the local government’s on-site visits to the assisted entity.)**

#### **13. Compliance Requirement:**

- The local government is required to file an **Annual Program Income Activity Report** each year, showing the source and application of all program income retained and used during the year. Such program income activity must be reported separately for the contract years of 1992 and prior and for the contract years of 1993 and later. (Grant Administration Manual; Program Income and Revolving Loan Fund Manual)

**NOTE:** **Program income** is any income earned by a local government from CDBG-supported activities. One example of program income is payments of principal and interest on loans made using CDBG funds. Other examples of program income, and examples of funds that do not qualify as program income, can be found in Chapter 4 of the CDBG Grant Administration Manual or at the website below. A revolving loan fund (RLF) is a separate fund established for the reuse of program income in the making of low interest community loans. For further information on program income and revolving loan funds (RLF) go to the Montana CDBG websites at:

[http://businessresources.mt.gov/BRD\\_CDBG.asp](http://businessresources.mt.gov/BRD_CDBG.asp) ; select Revolving Loan Fund

OR

[http://comdev.mt.gov/CDD\\_CDBG\\_GA.asp](http://comdev.mt.gov/CDD_CDBG_GA.asp) ; scroll to Chapter 4, Exhibit 4-H – Program Income

#### **Suggested Audit Procedure:**

- Review the **Annual Program Income Activity Report** and verify that the amounts reported therein agree with the local government’s accounting records.

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 11 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 14. Compliance Requirements: Program Income Before Project Closeout

- Program income received before closeout retains its Federal identity and must be used in accordance with the provisions of Title I of the Community Development Act of 1974. As such, all the regulations and requirements that applied during the term of the project will apply to the program income received before closeout. **(Note: Title I requirements can be found in the “Certifications for Application” attached to the CDBG application.)** For the most part, this means that the program income must be used for eligible CDBG activities, and that a minimum of 51% of the funds must be used for activities that are clearly designated to meet identified needs of persons of low and moderate income. (Program Income and Revolving Fund Manual)
- All program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury. An exception to this is if program income is committed to a revolving loan fund for housing rehabilitation or economic development. (Grant Administration Manual)

#### Suggested Audit Procedures:

- Determine that program income is used for eligible CDBG activities and that at least 51% of the program income is used for activities that benefit persons of low and moderate income.
- If the project involves program income which is not committed to a revolving loan fund, verify that the Program Income Summary, as reported on the **Request for Funds Form**, accurately reflects the program income activity in the local government’s accounting records.

#### 15. Compliance Requirements: Program Income After Project Closeout

- A local government requesting to retain program income after project closeout must submit a plan for the ongoing use and financial administration of any program income. For **housing and neighborhood renewal projects**, the program income plan is usually submitted at the time of project closeout.
- For **economic development projects**, an approved program income plan is required before loan repayments begin. The local government must also demonstrate that it is willing to commit the necessary resources to the proper management of the program income, and if applicable, that it has the capacity to set up and manage a revolving loan fund (RLF). Local governments have the option to enter into an agreement with a non-profit organization for the management of loan repayments, and continued relending activity. (Repayments made to a non-profit are not considered program income and have less restrictions for relending.) – see the Program Income and Revolving Loan Fund Manual.

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 12 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 15. **Compliance Requirements: Program Income After Project Closeout - continued:**

- If there are no other open CDBG projects, all program income received after closeout must be distributed to an appropriate RLF or program income account.
- Due to Title I changes, the local government is required to maintain a separate fund for revolving activities covered under 1992 and prior contracts, and a separate fund for revolving activities covered under 1993 and later contracts. The local government also has the option of combining all program income, and adhering to the most recent program income requirements. (Program Income and Revolving Loan Fund Manual)
- For the years 1992 and prior:
  - If the grantee does not have an on-going grant that was received directly from MDOC at the time of closeout, the MDOC encourages the use of program income for CDBG eligible activities that assist a minimum of 51% low and moderate-income persons.
  - Program income should be expended on activities as specified in the local government’s program income plan and/or closeout agreement.
- For the years 1993 and later:  
MDOC has developed the following policies for expenditure of program income after close-out which will meet the federal national objective of benefiting low and moderate income persons and allow local governments some flexibility with their program income:
  - As program income is received, the following applies: For **housing and public facilities activities**: a maximum of 15% would be allocated to an RLF administration fund and a minimum of 85% allocated to an RLF activity fund for each state fiscal year. For **economic development activities managed by a local government**: a maximum of 18% would be allocated to an RLF administration fund and a minimum of 82% allocated to an RLF activity fund for each state fiscal year.
  - After subtracting administrative costs, the remaining CDBG activity funds must be used on CDBG eligible activities that principally benefit low and moderate income persons (at least 51%). In addition, all program income received by a grantee after closeout must continue to be used in accordance with the provisions of Title I (e.g., Davis Bacon wage rates, environmental review, etc.). As such, all regulations and requirements that applied during the term of the project will apply to the program income received after closeout.

#### **Suggested Audit Procedures:**

- Obtain the approved **Program Income Plan** and verify that the activity for which the program income is being used is substantially the same as that described in the Plan.

<b>PROGRAM/SUBJECT:     Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 13 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### **Suggested Audit Procedures - continued:**

- Verify that the local government maintains separate funds for 1992 and prior contracts and for 1993 and later contracts. If the local government has opted to combine the program income from all contracts, verify that the most recent program income requirements are being adhered to.
- Verify that the amount of program income used for administrative purposes does not exceed the levels noted above.

#### **16. Compliance Requirement:**

- A local government proposing to use program income for **economic development** activities must demonstrate some level of financial analysis to assure that assistance to for-profit entities is appropriate. The local government should retain records to document compliance with this requirement, including the financial analysis conducted. (Grant Administration Manual)

#### **Suggested Audit Procedure:**

- If the program income is used for assistance to for-profit entities, obtain and review records, including a financial analysis, which document that the local government has determined that the financial assistance is appropriate.

#### **17. Compliance Requirement:**

- For CDBG economic development payments made by a local government to a qualified non-profit community development organization: Payments made to a community development organization that uses the funds for continued economic development activities do not have to meet any Federal requirements. However, the local government can still establish requirements for re-use of the funds, and require some CDBG requirements to be followed through grant agreements between the local government and the community development organization. A revolving loan fund plan must be executed that is agreeable to the local government. The local government must also execute a sub-recipient agreement with the community development organization for management of the revolving loan fund. The MDOC encourages community development organizations to continue to use loan proceeds for CDBG eligible activities that benefit 51% low and moderate income persons, and to follow activities specified in the revolving loan fund plan.

#### **Suggested Audit Procedure:**

- Review all agreements and RLF plans between the local government and the community development organization, and determine that the local government has procedures in place to monitor the provisions of these documents for compliance.

<b>PROGRAM/SUBJECT:</b> <b>Community Development Block Grant – State’s Program (CFDA No. 14.228)</b>	REF: COM-5
	PAGE: 14 of 14

### III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES:

#### 18. Compliance Requirement:

- Local governments and non-profit organizations that manage repayments from CDBG loans are required to file an annual **Loan Portfolio Data Report**, disclosing CDBG-funded primary and secondary loan information. This report is to be filed annually for the period ending December 31 of each year. (Program Income and Revolving Loan Fund Manual)

#### Suggested Audit Procedure:

- For local governments and non-profit organizations who have economic development loans, verify that a **Loan Portfolio Data Report** has been filed on an annual basis. Verify that the information in these reports agrees with information in the local government’s accounting records.